

PCIE/ECIE REVIEW OF NON-TAX  
DELINQUENT DEBT - TREASURY  
DEPARTMENTAL OFFICES

OIG-00-003

OCTOBER 5, 1999



Office of Inspector General

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United States Department of the Treasury



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

October 5, 1999

OFFICE OF  
INSPECTOR GENERAL

MEMORANDUM FOR NANCY KILLEFER  
ASSISTANT SECRETARY FOR MANAGEMENT/  
CHIEF FINANCIAL OFFICER

FROM: Dennis S. Schindel *Dennis Schindel*  
Assistant Inspector General for Audit

SUBJECT: PCIE/ECIE Review of Non-Tax Delinquent  
Debt - Treasury Departmental Offices

The attached report presents the results of our review of the President's Council on Integrity and Efficiency/ Executive Council on Integrity and Efficiency (PCIE/ECIE) review of non-tax delinquent debt at the Department of the Treasury's Departmental Offices. This audit was part of a PCIE/ECIE Government-wide review of non-tax delinquent debt and compliance with the Debt Collection Improvement Act of 1996 (DCIA).

Our analysis indicated that Departmental Offices has worked diligently towards meeting the objectives of the DCIA, which are to maximize collections of delinquent debts owed to the Federal Government and to reduce losses arising from inadequate debt management activities. However, our review indicated several areas where improvements are needed.

Specifically, Departmental Offices needs to improve its debt collection activities, by such actions as properly classifying delinquent debt, verifying accounts receivable balances, issuing demand letters promptly, referring debt over 180 days delinquent to the Financial Management Service on a timely basis, and managing its debt portfolio more effectively. These measures would minimize delinquent debts and increase collections of monies owed to the Federal Government.

Departmental Offices concurred with our recommendations and has already started to implement corrective measures. The management comments are discussed where appropriate in the attached report, and a complete text of the comments appears in Appendix 2.

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We appreciate the courtesies and cooperation provided to our staff during the review. Please contact me at (202) 927-5400, or a member of your staff may contact Alexander Best, Jr., Audit Manager, Finance and Debt, at (202) 283-1079, if you wish to discuss this report or have any questions.

Attachment

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## Overview

The Department of the Treasury (Treasury) Office of Inspector General (OIG) conducted an audit of Treasury's compliance with the Debt Collection Improvement Act of 1996 (DCIA). This audit is part of a President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) Government-wide review of non-tax delinquent debt. In performing our audit of the DCIA at Treasury, Departmental Offices (DO) was selected as one of the bureaus to be reviewed. The objectives of the audit were to determine whether the reported \$1.2 million in non-tax delinquent debt accurately represents the universe of non-tax delinquent debt and to assess the collectibility of the delinquent debt. Also, the audit evaluated DO's portfolio management activities to ensure that its practices minimize revenue loss to the Federal Government.

Departmental Offices has worked diligently towards meeting the objectives of the DCIA, which are to (1) maximize collections of delinquent debts owed to the Federal Government and (2) reduce losses arising from inadequate debt management activities. However, our audit identified several areas where improvements are needed. Specifically, DO needs to improve its debt collection activities, including properly classifying delinquent debt, verifying accounts receivable balances, issuing demand letters promptly, referring delinquent debt over 180 days to the Financial Management Service (FMS) on a timely basis, and managing its debt portfolio more effectively. These measures would minimize delinquent debts owed to the Federal Government, and increase collections of monies owed to the Government.

## Background

Significant Congressional concern regarding non-tax delinquent debt owed to the Federal Government prompted the Congress to enact the DCIA effective April 26, 1996. The DCIA requires individual program agencies to aggressively pursue the collection of debt once it becomes delinquent past 30 days. In this regard, the program agency may employ collection tools, such as demand letters, negotiated repayment agreements, wage garnishment, and debt sales, to collect non-tax delinquent debt. Also, the DCIA requires program agencies to reduce losses arising from debt management activities by requiring screening of potential borrowers, aggressive monitoring of accounts, and sharing of information among Federal agencies.

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Along with this, the DCIA specifically mandates that Federal agencies, with certain exceptions, transfer non-tax debt over 180 days delinquent to Treasury for collection. Treasury utilizes both centralized administrative offset and Government-wide cross-servicing to facilitate collection of the non-tax delinquent debt.

DO reported \$1,596,644 in receivables for Fiscal Year (FY) 1998, of which \$1,204,660 was delinquent over 180 days. Generally, the receivables due to DO include Freedom of Information Act copying fees from the DO library, civil monetary penalties (CMP) assessed, duplicate vendor payments, overpaid salary and/or benefits, and personal use of telecommunications equipment. CMP receivables account for the majority of the monies owed to DO. These penalties are non-criminal monetary assessments imposed for violations of Federal law and are used to enforce administrative or civil actions in the Federal courts. DO maintains account files for all receivables, except for salary overpayments. Salary overpayments are handled by the National Finance Center (NFC).

## **Objectives, Scope, and Methodology**

The objectives of the audit were to determine whether the reported \$1.2 million in non-tax delinquent debt over 180 days accurately represents DO's universe of non-tax delinquent debt and to assess the collectibility of the delinquent debt. Also, the audit evaluated DO's portfolio management activities to ensure that these practices minimize revenue loss to the Government.

To accomplish the audit objectives, we conducted interviews with the DO Assistant Director for Accounting and with the accountant in its Financial Management Division who is responsible for administering debt collection and portfolio management activities. Along with this, we (1) compared agency performance to the requirements of the DCIA and implementing regulations, (2) traced accounts receivable balances to source documents, (3) evaluated the age and collectibility of accounts receivable, (4) examined procedures used to certify the existence of the delinquent debt, and (5) examined procedures used to document and classify delinquent debt.

The audit focused on non-tax delinquent debt as of the end of FY 1998. We conducted the audit field work during February and March 1999, at the DO Headquarters in Washington, DC. This audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States.

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## Audit Results

DO has worked diligently towards meeting the objectives of the DCIA, which are to (1) maximize collections of delinquent debts owed to the Government and (2) reduce losses arising from inadequate debt management activities. However, the audit identified several areas where improvements are needed to meet the mandates of DCIA. Specifically, DO should improve its debt management activities by properly classifying its delinquent debts, issuing demand letters and sending debts over 180 days to FMS on a timely basis, verifying the accuracy and reliability of data provided in the accounts receivable and the *Report on Receivables Due from the Public* (Schedule 9), and managing its debt portfolio more effectively. Improvements in these areas will strengthen DO's compliance with the requirements of DCIA and reduce Federal non-tax delinquent debt.

### Finding 1 Delinquent Debt Should be Properly Classified

We found that DO did not properly classify a significant portion of its delinquent debt. Of the 23 debt cases we selected for review, 10 were not properly classified. In terms of dollars, misclassified debt represented \$567,088, which is 64 percent of the total debt sampled. The total debt sampled was \$891,952. This misclassification occurred because the accounting department did not closely monitor debt status to be knowledgeable of when the debts became delinquent.

Office of Management and Budget (OMB) Circular A-129, *Policies For Federal Credit Programs and Non-Tax Receivables*, states that agencies shall establish an accurate and timely reporting system to notify collection staff when a receivable becomes delinquent. Misclassified debt included three debts that were classified as over 180 days delinquent, but were actually under 180 days old; one debt that was classified as current, but was actually delinquent; two debts that were classified as delinquent, but had actually been paid; one debt that was classified as delinquent that should not have been in accounts receivable at all; and three debts for which the debtors had never been served notice about the delinquency, but which were in the files as being over 180 days delinquent.

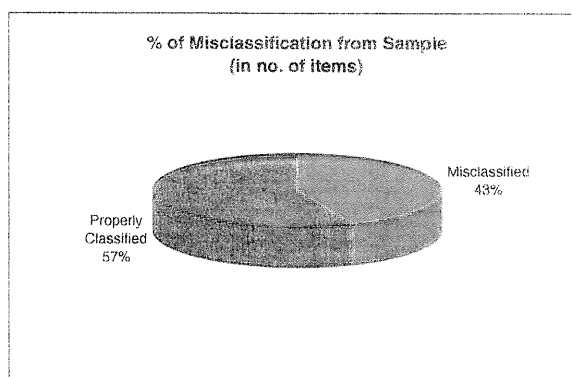
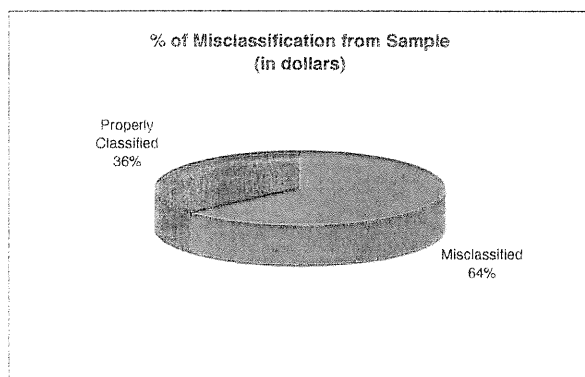
According to DO's Standard Operating Procedures (SOP), upon receipt of the penalty notice for CMP receivables, a receivable should be set up as soon as the documentation exists to prove the debtor owes the monies to DO and the debt starts to age. DO has interpreted this SOP to mean documentation proving the debtor has been served. We found that the three debts where notice had never been served had aged to over 180 days delinquent. However, the three debts should not have aged, because DO could not prove that the debtors had been served.

As a result of these misclassifications, the *Report on Receivables Due from the Public* for FY 1998 should not have been certified by the Deputy Assistant Secretary (Administration) to be accurate and consistent with agency accounting systems. Table 1 reflects the misclassified debt in terms of dollars and number of items.

**TABLE 1**  
**DEPARTMENTAL OFFICES**  
**MISCLASSIFICATION OF DEBT**

	Amount of Items (\$)
Misclassified	567,088
Property Classified	324,864
Total Sampled	891,952

	No. of Items
Misclassified	10
Property Classified	13
Total Sampled	23



### Recommendation 1

DO's Accounting Department should review the *Report on Receivables Due from the Public* to ensure the accuracy of the data.

### Management Response and OIG Comment

DO concurred with the recommendation. Accounting staff are currently in the process of working with the Office of Foreign Assets Control to ensure that the data is properly classified. The process will be completed in September 1999.

The OIG concurs with the proposed corrective action.



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**Finding 2    Accounts Receivable Balances Should Be Verified and Reviewed for Existence, Accuracy, and Completeness**

During our review, we were not able to trace all items to the general ledger and supporting documentation from the amounts shown on the Debt Performance Indicators<sup>1</sup> for FY 1998. These amounts are incorporated into the *Report on Receivables Due from the Public*.

Specifically, we were not able to trace the payroll balances, administrative fees, and interest charges shown in the Debt Performance Indicators for FY 1998 to the general ledger and supporting documentation. These discrepancies surfaced as a result of our accounts receivable verification attempt, and were not known by DO managers until we brought the matter to their attention.

DO officials stated that source documents were unavailable for payroll related debts because these debts are handled and collected by the NFC, which is DO's Cross-Servicing Agent. DO did not receive the status of NFC's collection efforts for its payroll debts. Also, when we attempted to trace nine debts listed as having been sent to a private collection agency, our total for these debts was \$14,022 higher than the total reflected in the Debt Performance Indicators for FY 1998.

In addition, we encountered difficulties in our attempt to verify the balance shown in the Debt Performance Indicators for FY 1998 for the category "No Pursue Items," which reflected the amount of \$2,450. We found that in one file alone, included in our sample, the debt amount was \$4,500. Thus, the total items could not have been stated correctly in the Debt Performance Indicators for FY 1998. Along with the misclassification of debt, the above instances indicate the balances shown on the Debt Performance Indicators for FY 1998 are not reliable. Accordingly, the reported amount does not accurately represent the universe of non-tax delinquent debt owed to DO.

**Recommendation 2**

The Accounting Department should review the existence, accuracy, and completeness of its accounts receivable balances to represent actual non-tax delinquent debt amounts owed to DO.

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<sup>1</sup> Debt Performance Indicators are a management tool used to assess debt collection performance.

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## Management Response and OIG Comment

DO concurred with the recommendation and will work with the Office of Foreign Assets Control to ensure that the data is properly classified. This will be completed by September 1999.

The OIG concurs with the proposed corrective action.

### **Finding 3    Departmental Offices Should Manage Its Debts More Effectively**

DO needs to improve its management of the debt. Even though there are SOPs in effect, they are not always being followed. Without adherence to the SOPs, the data on the *Report on Receivables Due from the Public* may not be reliable. Further, OMB Circular A-129 states that accurate and complete documentation is critical to provide proper servicing to the debtor, pursue collection of delinquent debt, and obtain payment.

We found that demand letters and the Treasury Offset Program (TOP)<sup>2</sup> notification letter were not being sent out within the required 30-day intervals. DO's Accounting Department SOPs state that debtors should receive three collection letters at not more than 30-day intervals and one certified notification letter prior to referral to FMS. For example, a CMP notice was sent to a debtor on January 27, 1998. The debt was due on February 26, 1998. The first demand letter requesting repayment was not sent until 3 months after the debt was due to be paid. DO neglected to send the second and third letters. Even though the debtor did not receive the other letters, DO sent a letter informing the debtor that his file was being turned over to TOP in January 1999. As of March 15, 1999, the end of our fieldwork, DO had not sent the debt to FMS for collection.

Also, we found that DO frequently omitted the issuance of the third demand letter to the debtors. We could identify only one file in our sample that contained the third demand letter. Moreover, for three of the debts in our sample, we found that the second demand letter was not sent. However, DO did issue letters to the debtors informing them that their debt was being turned over to FMS for collection through TOP.

In another example, no demand letter was ever sent to the debtor, but DO sent a letter informing the debtor that the debt was being referred to TOP. In addition to skipping the three demand letters prior to sending the debt to FMS for TOP, the TOP notification letter should not have been sent. When we questioned the procedures used in this debt case, we were told that DO could not determine

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<sup>2</sup> TOP is a centralized process to match Federal payments against debts owed to the Government. When a match occurs and a payment recipient who owes a Federal debt is identified, the payment is reduced or offset by the amount of the debt.

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whether the debtor had been afforded due process. If the debtor was not afforded due process, DO does not consider the debt to be delinquent, thus, the debt should not have been listed as a delinquent debt over 180 days old.

In addition to untimely and/or partial debtor notification, debts over 180 days old were not being sent to FMS in a timely manner as required by DCIA. DCIA states that any Federal agency that is owed by a person a past due, legally enforceable non-tax debt that is over 180 days delinquent shall notify the Secretary of the Treasury of all such non-tax debts for the purpose of administrative offset. In many cases, it has taken over a year for debt to be sent to FMS. Specifically, we found that 10 debts were referred late by DO.

The average delay in sending debt to FMS after the 180-day delinquency was 197 days. This average may actually be higher, because we calculated it as of the date our field work ended, using March 15, 1999, as the date on which the debt would have been sent to FMS. Thus, DO is not in compliance with the DCIA. One of the purposes of the DCIA is to reduce losses arising from ineffective debt management activities by aggressively monitoring all debt accounts and referring delinquent debt to FMS for collection activities.

We also found that DO has not accrued interest and administrative fees on a monthly basis on several of the delinquent debts. According to the SOPs, interest and administrative fees are to be charged on a monthly basis. OMB Circular A-129 states that interest shall be accrued from the date on which notice of the debt and interest charge is mailed or delivered to the debtor. DO management informed us that this situation occurred because the Accounting Department was not closely monitoring delinquent debt. Thus, DO did not recognize all revenues associated with the delinquent debt. Not assessing interest and administrative fees has resulted in revenue losses to the Government.

### **Recommendation 3**

DO should closely monitor its accounts receivable to identify delinquent debt and issue timely demand letters and debt referrals to FMS.

### **Management Response and OIG Comment**

DO concurred with our recommendation and is in the process of sending appropriate debt collection letters regarding old items and maintaining a current status on new items. These actions will be completed in November 1999.

The OIG concurs with the proposed corrective action.

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#### **Recommendation 4**

DO's Accounting Department should effectively manage the delinquent debts over 180 days old. Proper management is critical to improving the consistency of reporting on delinquencies and recording revenue recognition associated with interest and administrative charges for a more business-like credit management environment as established by DCIA.

#### **Management Response and OIG Comment**

DO concurred with this recommendation and will send appropriate debt collection letters regarding old items and maintain a current status on new items. These actions will be completed in November 1999.

The OIG concurs with the proposed corrective action.

## ABBREVIATIONS

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CFO	Chief Financial Officer
CMP	Civil Monetary Penalties
DCIA	Debt Collection Improvement Act of 1996
DO	Departmental Offices
ECIE	Executive Council on Integrity and Efficiency
FMS	Financial Management Service
FY	Fiscal Year
NFC	National Finance Center
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
SOP	Standard Operating Procedures
TOP	Treasury Offset Program
Treasury	Department of the Treasury

## MANAGEMENT RESPONSE

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

JUL 30 1999

MEMORANDUM FOR DENNIS S. SCHINDEL  
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Nancy Killefer *Nancy Killefer*  
Assistant Secretary for Management and  
Chief Financial Officer

SUBJECT: Draft Report on the PCIE/ECIE Review of Non-Tax  
Delinquent Debt-Treasury Departmental Offices

Thank you for providing us with the opportunity to comment on your subject draft report. I apologize that the response has been delayed.

We appreciate your observations and recommendations and concur with the findings. Accounting staff are currently in the process of working with the Office of Foreign Assets Control to ensure that we have the data properly classified. This process will be completed in September, 1999.

The staff is also in the process of sending appropriate debt collection letters regarding both old items and maintaining a current status on new items. These actions will be completed in November 1999.

If you have any questions concerning our progress or plans to bring our process into compliance, please contact Kathryn Melvin on (202)622-1164 or John Roberts on (202)622-1067.

## **MAJOR CONTRIBUTORS TO THIS REPORT**

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## REPORT DISTRIBUTION

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